



17555 PEAK AVENUE MORGAN HILL CALIFORNIA 95037

MORGAN HILL
FINANCE AND AUDIT COMMITTEE

Morgan Hill Civic Center
West Conference Room
17555 Peak Avenue
Morgan Hill, California

Chair
Committee Member
Committee Member
Staff: City Manager
Finance Director
Asst. to the City Manager

Mike Roorda
Hedy Chang
Larry Carr
Ed Tewes
Jack Dilles
Melissa Stevenson Dile

SPECIAL MEETING

Wednesday, May 26, 2004

MINUTES

5:05 P.M.

CALL TO ORDER by Acting Chair Chang

Committee Member Chang and Committee Member Carr; (Chair Roorda arrived at 5:17 PM)
Staff: Tewes, Dilles, & Dile

DECLARATION OF POSTING OF AGENDA

In compliance with Government Code 54954.2

PUBLIC COMMENTS

The Morgan Hill Finance and Audit Committee welcomes comments from all individuals on any agenda item being considered by the Committee. In the interest of brevity and timeliness and to ensure the participation of all those desiring an opportunity to speak, comments presented to the Committee are limited to Three Minutes.

BUSINESS:

1. Approval of minutes for April 28, 2004

The minutes for April 28, 2004, were approved on a motion by Committee Member Carr, seconded by Committee Member Chang.

4. Investment Policy Review

Staff gave a brief report concerning the requirement for the City Council to annually review the current Investment Policy. Staff sees no reason to change the current policy and asked Committee Members if they have any reason to change the policy. Committee Member Carr inquired as to who performs duties as the Deputy City Treasurer, since the policy refers to that position. Staff responded that there is no one who has been officially designated as Deputy City Treasurer. Mike Roorda serves as City Treasurer and Jack Dilles serves as Redevelopment Agency Treasurer. Staff will research this issue and bring a clarification back to the Committee. The Committee approved bringing the policy as presented to the City Council for approval. Chair Roorda confirmed his agreement with approval of the Investment Policy later in the meeting.

2. Review Revenue Enhancement Options and Recommend Plan for City Council Consideration

Staff indicated that Chair Roorda had prepared the proposed presentation included in the agenda packet. Chair Roorda arrived at this time. Committee member Carr read aloud the Council's goal: "Prior to Council consideration of the City Manager's Recommended Budget, in May 2004, the Finance and Audit Committee shall prepare and recommend a plan for Council to consider new revenue options, including a plan on how to best obtain community input." The Committee discussed whether it would be appropriate to demonstrate significant budget cuts before considering new revenues. City Manager Tewes indicated that Council policy is to use reserves and reduce less critical services, thus avoiding big service reductions, and to increase revenue. The strategy is not to wait until the City must make dramatic cuts to raise revenue. Chair Roorda asked if reducing expenditures is part of the plan, and City Manager Tewes responded that is the case, but that the \$900,000 expenditure reduction in fiscal year 2004/05 may not be noticeable to the public. Committee Member Carr indicated that the City is not cutting now in order to expand later, even if sales taxes greatly increase. Committee Member Chang indicated that \$900,000 in expenditure cuts is significant. Committee Member Carr stated that the key word is "demonstrate." The City must demonstrate a plan and educate the public about the City's budget problem and the expenditure cuts occurring now and next year. The City must explain to the public that the City is making cuts, even if this is not noticeable to the public. The City is trying not to dramatically affect the community. Committee Member Chang recommended that the Committee add as a recommendation to the City Council that the City educate the current residents about the City's budget plan and situation. Chair Roorda added that the City's reserves have hidden the financial effects and that the City has been able to insulate the public from pain. Committee Member Carr further indicated that the public needs to be educated regarding the budget and the demonstrated cuts incurred as part of the budget process, including last year's, this year's, and next year's. He also indicated that the

City has a long-term strategy to fix the structural budget problems and that the idea is not to come up with a one-time fix. City Manager Tewes added that the belt has been tightening even before the newest cuts. Chair Roorda asked about the effect of cuts on service levels, and City Manager Tewes responded that the level of new revenues proposed was about maintaining current services and not expanding services. Committee Member Chang indicated that successful tax measures identify specific uses of the money raised, and that general taxes do not provide this assurance. City Manager Tewes responded that 85% of the City's discretionary General Fund budget is spent on public safety. Committee Member Carr stated that the City Council should explain why revenue increases are necessary and that revenues support public safety. Committee Member Chang added that there is a need to explain why expenditure increases have occurred and why deficits are occurring.

Committee Member Carr indicated that one challenge is to recover all costs incurred for certain services through user fees. City Manager Tewes responded that we cannot rescind the law of supply and demand, as there are limits as to how much the City can charge for its fees.

The Committee went through the matrix of fee types and selection criteria, and reduced the criteria to 6 as follows: Fairness & Equity, Transparency & Visibility, Neutrality, Certainty, Economic Growth & Efficiency, and Appropriate Government revenues. The Committee agreed that these 6 were the most significant and meaningful. Committee Member Chang indicated that the Economic Development Committee needs to discuss the subject of tax increases. Committee Member Carr stated that it is important to him that there be unanimous approval for support by the Committee and City Council for new revenue sources.

The Committee approved a motion to recommend the revised Committee recommendations, strategy, and report to the City Council, pending a final review of the revised document to be distributed to Committee Members through e-mail. The intent is to get this report to the City Council on June 2 if possible.

3. April 2004 Finance & Investment Report

This item was not discussed due to time constraints.

5. Future Agenda Items (Discussion)

None.

ADJOURNMENT: 7:00 P.M.

NOTICE
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